

FDIC State Profile

Spring 2005

Pennsylvania

For the first time since 2000, Pennsylvania achieved positive job growth in 2004.

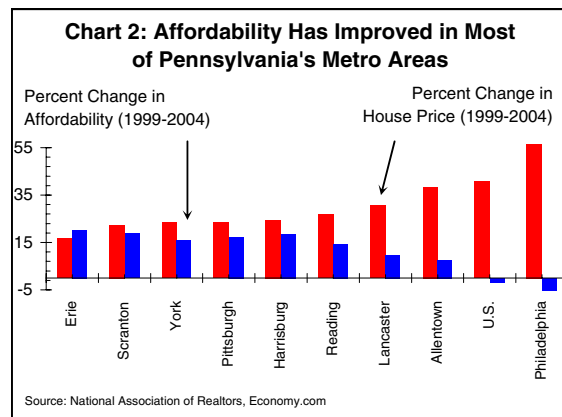
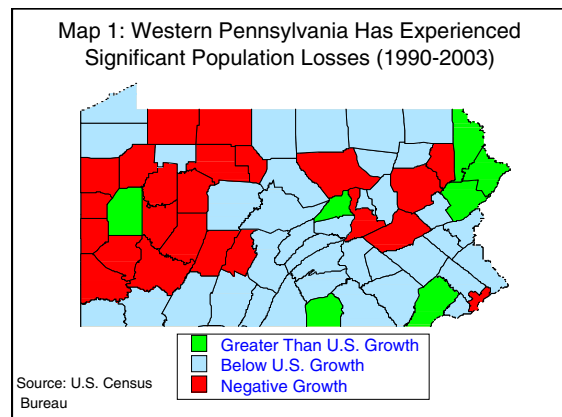
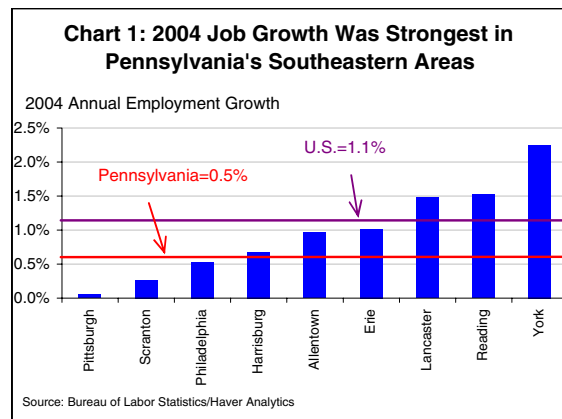
- **York, Reading, and Lancaster** reported the strongest job growth in the state during 2004 and exceeded the U.S. average (See Chart 1). Increased business, educational, and health care jobs have been major drivers in York. After three consecutive years of decline, Reading achieved positive job growth in 2004, reflective of increased jobs in health and business services and an easing of manufacturing job losses. Lancaster's economy benefited from job growth in business, educational, health services, and tourism-related industries.
- **Philadelphia** benefited from gains in service sector jobs including business, health, and education, and growth in the hospitality industries.
- **Pittsburgh's** job growth lagged other metropolitan areas in the state. Lingering job losses in manufacturing more than offset job creation in the service sector.

Statewide population trends reflect economic growth.

- Attracted by lower living and business costs, strong in-migration mostly from out-of-state to the **Lehigh Valley** has helped the **Allentown** and **Bethlehem** economies (See Map 1). Metropolitan areas in **Western Pennsylvania**, such as Pittsburgh and **Sharon**, have been steadily losing residents since 1990. Population loss has been associated with long-term declines in the area's manufacturing industry.

Housing affordability has improved across Pennsylvania's housing markets.

- With the exception of Philadelphia, home affordability levels improved across Pennsylvania's housing markets over the past five years (See Chart 2).¹ Compared with other Northeast states, modest housing price appreciation throughout much of the state reflects greater availability of land and slower population growth.



¹Affordability index is defined as when a median family income qualifies for an 80 percent mortgage on a median-priced single-family home.

State Profile

- Philadelphia has experienced greater home price appreciation, particularly in suburban areas, than other parts of the state because of favorable demographic trends and strong demand for housing. Home price appreciation also has been comparatively strong in Allentown, a reflection of a spillover of housing demand from **Northern New Jersey**.

Pennsylvania's FDIC-insured community banks reported stable profitability in 2004.

- The median return-on-assets reported by the state's community banks was essentially unchanged in 2004 at 0.80 percent.² Provisions for loan losses declined slightly during the year, reflecting strong credit quality.

Real estate-related loans were the drivers of statewide loan growth.

- Residential real estate-related lending, such as construction and home equity loans, led community bank loan growth in 2004. Growth rates were highest in **Eastern** and **Central Pennsylvania**, reflecting more robust housing markets than in the western parts of the state.

The effect of interest rate changes on net interest margins (NIMs) will be a key trend in 2005.

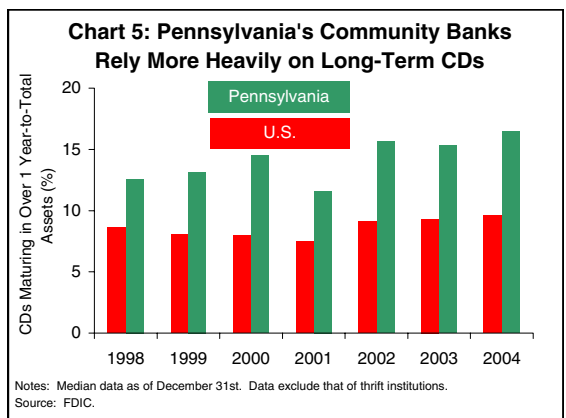
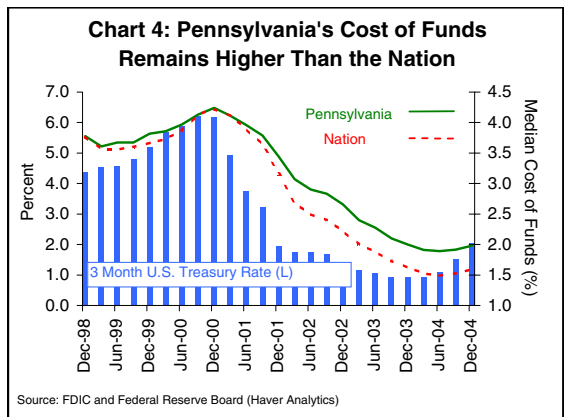
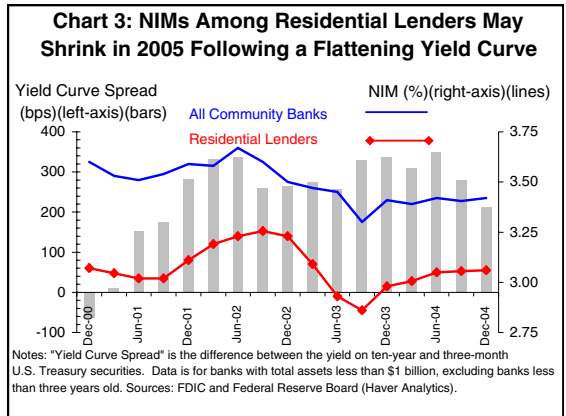
- After declining during much of 2003, NIMs reported by the state's community banks stabilized in 2004 following a steepening in the yield curve early in the year (See Chart 3).
- A greater share of Pennsylvania's banks may experience NIM compression if the yield curve flattens because at 35 percent, the state's concentration of residential lenders is more than three times the nation's.³ Residential lender NIMs may be more vulnerable to yield curve flattening because these lenders typically rely heavily on the spread between long- and short-term interest rates.

Funding costs among the state's community banks are well above the nation's.

- After a steady decline since 2001, Pennsylvania's median cost of funds modestly increased at the end of 2004 in response to higher short-term interest rates. The state's cost of funds has consistently exceeded the nation during the past three years (See Chart 4).
- A greater reliance on long-term certificates of deposit (CDs) for funding has contributed to higher funding costs among Pennsylvania banks (See Chart 5). Longer-term

CDs typically have higher yields than shorter-term funding instruments and, in a declining rate environment, reprice downward more slowly than shorter-term funding. Favorably, this may be a benefit in a rising rate environment, as deposits may reprice upward more slowly.

- The higher concentration of long-term CDs may reflect the state's larger share of residents 65 or older (15.2 percent) compared with the nation (12.5 percent). Some senior citizens prefer the safety of insured CDs over other investment products.



²Analysis is for community banks unless otherwise noted. "Community banks" are defined as insured institutions that hold less than \$1 billion in total assets. This definition excludes credit card banks and banks less than three years old.

³"Residential mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities.

Pennsylvania at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.8%	-0.1%	-0.3%	-1.1%	1.6%
Manufacturing (12%)	-0.9%	-6.2%	-5.9%	-8.0%	-0.6%
Other (non-manufacturing) Goods-Producing (5%)	1.2%	0.1%	-1.2%	0.7%	2.8%
Private Service-Producing (70%)	1.2%	0.9%	0.6%	-0.2%	2.1%
Government (13%)	0.1%	0.5%	1.2%	1.7%	0.6%
Unemployment Rate (% of labor force)	5.6	5.5	5.7	5.2	4.2

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	4.7%	2.0%	0.8%	6.1%
Single-Family Home Permits	-11.9%	-1.0%	14.3%	2.3%	-2.0%
Multifamily Building Permits	-52.0%	93.0%	-11.2%	38.1%	-14.4%
Existing Home Sales	7.0%	11.2%	4.6%	0.6%	1.2%
Home Price Index	11.0%	8.2%	7.4%	7.0%	4.7%
Bankruptcy Filings per 1000 people (quarterly level)	1.11	1.14	1.07	0.96	0.86

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	262	270	283	294	303
Total Assets (in millions)	330,986	297,075	285,461	273,580	265,329
New Institutions (# < 3 years)	9	10	10	19	16
Subchapter S Institutions	5	4	4	4	5

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.36	1.51	1.73	1.69	1.61
ALLL/Total Loans (median %)	1.11	1.14	1.12	1.06	1.06
ALLL/Noncurrent Loans (median multiple)	1.85	1.55	1.38	1.41	1.60
Net Loan Losses / Total Loans (median %)	0.06	0.09	0.10	0.07	0.07

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.42	9.02	9.03	8.98	9.34
Return on Assets (median %)	0.82	0.86	0.92	0.84	0.92
Pretax Return on Assets (median %)	1.09	1.17	1.26	1.15	1.25
Net Interest Margin (median %)	3.38	3.38	3.63	3.52	3.67
Yield on Earning Assets (median %)	5.27	5.55	6.42	7.31	7.68
Cost of Funding Earning Assets (median %)	1.90	2.16	2.84	3.81	4.04
Provisions to Avg. Assets (median %)	0.08	0.09	0.12	0.10	0.09
Noninterest Income to Avg. Assets (median %)	0.49	0.50	0.48	0.47	0.43
Overhead to Avg. Assets (median %)	2.52	2.51	2.54	2.53	2.54

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	61.4	59.3	60.1	64.1	64.9
Noncore Funding to Assets (median %)	19.2	18.3	17.7	17.1	16.8
Long-term Assets to Assets (median %, call filers)	35.0	35.4	34.2	37.2	38.1
Brokered Deposits (number of institutions)	45	43	37	32	29
Brokered Deposits to Assets (median % for those above)	1.3	1.2	2.1	2.1	2.0

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	46.8	47.6	48.6	50.8	45.6
Commercial Real Estate	153.4	146.9	137.6	116.6	113.4
Construction & Development	16.4	14.3	13.8	11.5	10.3
Multifamily Residential Real Estate	5.9	5.7	5.3	4.9	5.3
Nonresidential Real Estate	111.9	110.2	106.0	87.5	90.6
Residential Real Estate	292.7	296.6	320.7	337.9	345.0
Consumer	21.4	25.4	29.0	37.3	43.9
Agriculture	2.4	2.6	3.0	2.9	4.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748	< \$250 mil.	137 (52.3%)
Pittsburgh, PA	64	53,280	\$250 mil. to \$1 bil.	94 (35.9%)
Allentown-Bethlehem-Easton, PA-NJ	34	11,502	\$1 bil. to \$10 bil.	26 (9.9%)
Scranton--Wilkes-Barre, PA	24	9,699	> \$10 bil.	5 (1.9%)
Harrisburg-Carlisle, PA	32	8,284		